

# GENUI II – Operating Principles for Impact Management Disclosure Statement

- On April 12, 2019, the International Finance Corporation, together with a core group of external stakeholders, launched the Operating Principles for Impact Management. The objective of this effort is to establish a common discipline and market consensus around the management of investments for impact.
- GENUI GmbH (the “Signatory”, the “Manager”) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the “Impact Principles”).
- This Disclosure Statement applies to the following assets (the “Covered Assets”):
  - GENUI II GmbH & Co. KG
- The total assets under management<sup>1</sup> in alignment with the Impact Principles is US\$ 813 million as of December 31, 2020.

Signed:

Name of Institution: GENUI GmbH

Authorized Representative: Max Odefey

Title: Managing Director

Date: September 6, 2021

<sup>1</sup> Based on SEC’s definition incl. total drawn assets under management plus undrawn investors’ commitments

# Strategic Intent

**Principle 1**

***Define strategic impact objective(s), consistent with the investment strategy.***

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

***Incorporation in GENUI investment process***

- GENUI's strategic sustainability objective is to achieve positive and measurable social or environmental effects.
- GENUI invests in companies with neutral to positive external societal impact and/or where GENUI has significant potential additionality, pursuing alignment of its investments with the United Nations Sustainable Development Goals focusing on SDG 3, 4, 7 and 12.
- Both at GENUI management company level and at the portfolio companies, GENUI seeks to implement initiatives for achieving tangible environmental, social and governance (ESG) outcomes. These include achieving carbon neutrality and realising equal pay during our ownership (contributing to SDG 5 and SDG 13).

# Strategic Intent

**Principle 2*****Manage strategic impact on a portfolio basis.***

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

***Incorporation in GENUI investment process***

- Annually, quantitative and qualitative measurement of the individual investments' social impact is carried out by independent specialist social impact advisory firm Value for Good GmbH (for qualifications see <https://www.valueforgood.com/>; for methodology see <https://www.genui.de/wp-content/uploads/2021/05/GENUI-II-ESG-Report-2020.pdf>). The quantitative methodology is based on available evidence from third-party academic research which translates the social outcomes into economic terms. The qualitative impact analysis approach aligns with norms established by the Impact Management Project framework. To monitor impact on a portfolio level, the impact evaluation is aggregated as part of the assessment.
- Both at GENUI management company level and at the portfolio companies, GENUI seeks to implement initiatives for achieving tangible environmental, social and governance (ESG) outcomes. These include achieving carbon neutrality and realizing equal pay during our ownership (contributing to SDG 5 and SDG 13). Initiatives are defined and consistently tracked across portfolio companies based on the standard GENUI ESG KPI Tool and Initiatives (please see p. 37 for details: <https://www.genui.de/wp-content/uploads/2021/05/GENUI-II-ESG-Report-2020.pdf>).
- GENUI conducts anonymised 360° feedback, which forms the basis for performance and compensation reviews. This also takes into account an individual's contribution to ESG value creation and management of ESG risks.

# Origination & Structuring

**Principle 3**

***Establish the Manager's contribution to the achievement of impact.***

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

***Incorporation in GENUI investment process***

- GENUI supports portfolio companies with the expertise of investment team and GENUI's network of entrepreneurs, GENUI's ESG team, and advice from specialized external ESG and social impact consultancies.
- For each investment, the annual impact assessment includes an evaluation of GENUI's contribution to the achievement of impact, including to what extent GENUI contributes to adopting higher environmental and social standards during its ownership. Please see GENUI's Annual ESG Report for details:  
<https://www.genui.de/wp-content/uploads/2021/05/GENUI-II-ESG-Report-2020.pdf>

# Origination & Structuring

**Principle 4**

***Assess the expected impact of each investment, based on a systematic approach.***

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

***Incorporation in GENUI investment process***

- As part of the investment evaluation, since 2021 GENUI conducts a high-level assessment of the most material positive and negative externalities related to ESG factors, where appropriate, supported by the social impact consultancy Value for Good GmbH. This typically includes the environmental footprint of the business as well as the central social externalities, such as the benefits to society generated by a healthcare or education provider.

# Origination & Structuring

**Principle 5**

***Assess, address, monitor, and manage potential negative impacts of each investment.***

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

***Incorporation in GENUI investment process***

- In alignment with the EU's Sustainable Finance Disclosure Regulation, sustainability risk management is embedded in the way GENUI seeks to originate investments and make investment decisions and in ongoing portfolio management activities.
- GENUI commissions external due diligence assessments of principal adverse sustainability impacts by independent specialist sustainability consulting firm ERM (for qualifications see <https://www.erm.com/>; for methodology see <https://www.genui.de/wp-content/uploads/2021/05/SFDR-Material-Adverse-Impact-Statement.pdf>). Where due diligence uncovers material problem areas, GENUI assesses whether these can be successfully mitigated during GENUI's ownership, and if so, devises a corresponding action plan. If not, this will constitute a reason for GENUI not to invest in the company.
- Pre-transaction, GENUI seeks buy-in from management to implement identified ESG actions and the GENUI ESG KPI Tool (please see p. 37 for details: <https://www.genui.de/wp-content/uploads/2021/05/GENUI-II-ESG-Report-2020.pdf>), as reflected in transaction documentation and the post-transaction from 2021 onwards.
- At portfolio company advisory board level, progress is reviewed at least annually and improvement actions are agreed for the subsequent period, including those required to address potential gaps in ESG systems, processes and standards.
- To ensure that ESG risks and potential negative effects of an investment can be effectively monitored, GENUI implements robust disclosure channels and monitoring frameworks at the portfolio companies, including: GENUI best-practice compliance policies; compliance officer to monitor ongoing compliance with ESG-related guidelines; whistleblower and grievance procedures; the GENUI ESG incident reporting process.
- Please see GENUI's Sustainable Investing Framework for further details <https://www.genui.de/en/home-en/#sustainability>

# Portfolio Management

**Principle 6**

***Monitor the progress of each investment in achieving impact against expectations and respond appropriately.***

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

***Incorporation in GENUI investment process***

- Quantitative measurement of the investments' social and environmental impact is conducted based on third-party research along the Social Return on Investment Principles and is complemented by a qualitative evaluation of impact using the Impact Management Project's five dimensions of impact.
- Both the quantitative and qualitative measurement and assessment are carried out by independent specialist advisory firm Value for Good, that also provides an evaluation of the limitations of the applied methodologies. And, GENUI engages its auditor EY to provide independent verification of the quantitative impact measurement.
- ESG initiatives are consistently tracked across portfolio companies based on the standard GENUI ESG KPI Tool and Initiatives and reported as part of GENUI's Annual ESG Report.
- The Annual ESG Report serves as a basis for reviewing the performance of each investment as well as the portfolio overall with regards to the achievement of expected, i.e. targeted impact. This includes an assessment of whether ESG targets such as carbon neutrality and equal pay (see Principle 1) and whether a positive social impact expected at investment (see Principle 4) have been realized.
- At portfolio company advisory board level, progress is reviewed at least annually and improvement actions are agreed for the subsequent period.

# Impact at Exit

**Principle 7**

***Conduct exits considering the effect on sustained impact.***

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

***Incorporation in GENUI investment process***

- ESG progress made by a portfolio company during GENUI's ownership should be built upon during new ownership. Accordingly, GENUI will consider whether a potential future investor is interested in continuing a portfolio company's ESG progress, taking into account factors such as:
  - Potential concerns over the business integrity of the buyer
  - Buyer's reputation and track record with respect to ESG matters
  - Whether the investor is committed to principles of responsible investing
  - Investor's plans for the portfolio company with regard to ESG factors

# Impact at Exit

**Principle 8**

***Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.***

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

***Incorporation in GENUI investment process***

- The Annual ESG Report serves as a basis for reviewing the performance of each investment as well as the portfolio overall with regards to the achievement of expected, i.e. targeted impact. This includes an assessment of whether ESG targets such as carbon neutrality and equal pay (see Principle 1) and whether a positive social impact expected at investment (see Principle 4) have been realized.
- GENUI regularly reviews the GENUI Sustainable Investing Framework (previously called ESG Policy as part of Compliance Manual) to improve operational and strategic investment decisions as well as management processes, and to identify new ESG initiatives and KPIs.
- With this in mind, we have established the GENUI Sustainability Council in May 2021, an advisory body comprising selected GENUI investors' ESG representatives, that will come together on a semi-annual basis to discuss potential improvement measures and industry best practice.

# Independent Verification

**Principle 9**

***Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.***

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

***Incorporation in GENUI investment process***

- This information constitutes our public disclosure of alignment with the Operating Principles for Impact Management.
- GENUI disclose on the social impact calculations and assessment provided in the annual GENUI II ESG Report (Net Value to Society in €m, p. 13, including a summary of the estimated social impact for the period covered by the report: <https://www.genui.de/wp-content/uploads/2021/05/GENUI-II-ESG-Report-2020.pdf>). The quantitative measurement of the individual investments' social impact is carried out by independent specialist advisory firm Value for Good GmbH. GENUI has engaged EY (Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart) to check the mathematical accuracy of the calculation and to reconcile data used in the Impact Calculation to the underlying data provided by GENUI in accordance with the International Standard on Related Services (ISRS) 4400 (revised).
- GENUI has engaged EY (Ernst & Young Wirtschaftsprüfungsgesellschaft, Stuttgart) to perform a limited assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 on GENUI's disclosure statement regarding its alignment with the Operating Principles for Impact Management for the reporting period from 1 January 2020 to 31 December 2020. This limited assurance engagement was carried out on July 16, 2021 based on Covered Assets reviewed in the amount of US\$ 813 million<sup>1</sup>.
- EY issues an assurance report on the basis of the engagement agreed with GENUI GmbH. The assurance engagement has been performed for the purpose of the GENUI GmbH and the report is solely intended to inform GENUI GmbH as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.
- The next and first publicly available limited assurance engagement is planned for March 2022.

<sup>1</sup> Based on SEC's definition incl. total drawn assets under management plus undrawn investors' commitments

# GENUI Disclaimer

This presentation contains only a concise description of the activities of GENUI and is in all respects subject to revision and amendment. It is not a prospectus, nor an offer of interests or other securities nor an invitation to subscribe for interests or other securities. The presentation is compiled by GENUI GmbH with the greatest possible diligence. GENUI GmbH does however not warrant or guarantee the accuracy, completeness or fairness of this presentation and the information contained therein.